HOUSING MARKET OUTLOOK

Kelowna

Canada Mortgage and Housing Corporation

RESALE MARKET

SALES MODERATE IN 2006 AND 2007

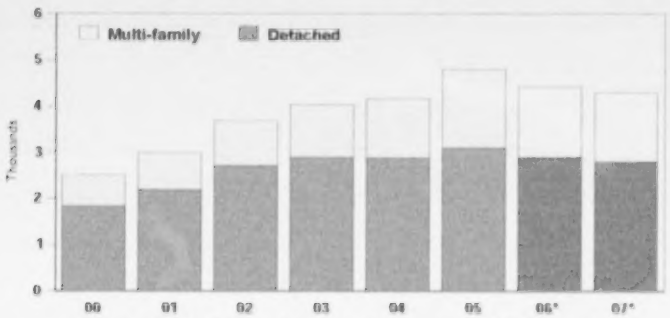
The Kelowna area resale market will record another strong performance in 2007. Sales, though dropping back from 2005's record pace, will remain at high levels. Sales activity has moderated in response to sharply rising prices, slightly higher interest rates and stronger price competition from the new home market. More homes are available for sale, the supply of listings - all types - edging up through 2006. Resale home prices will see double-digit increases again in 2006. Look for smaller price gains next year. Kelowna's resale market will move towards more balanced market conditions in 2007.

The demand outlook is positive despite fewer sales this year. Market fundamentals remain solid. Growth in employment, wages and home equity will support high levels of resale and new home construction activity. The BC economy will continue to expand through 2007. Robust job growth has pushed the unemployment rate to historical lows, triggering an inflow of job seekers to BC. Consumer confidence remains high. Interest rates are expected to stabilize, after trending up this year and last.

Like BC overall, the Kelowna area economy will continue to experience broad-based growth in 2007. Strong employment growth has, in turn, spurred in-migration. Regional amenities also remain a big draw, fueling population growth and

Continued on the next page

Chart 1 MLS Sales - Kelowna Area



Source: OMREB, Multiples, Apartment and all Townhouses, CMHC Forecast

Date Released: Fall 2006

IN THIS ISSUE

Resale Market 1

Sales Moderate in 2006 and 2007.

New Home Market 3

Housing Starts Drop Back From Record Highs Next Year.

Economic Overview 5

Outlook Remains Positive in 2007.

Forecast Summary 6

HOUSING MARKET OUTLOOK is CMHC's bi-annual forecast for new and resale home markets. Issues are released in the spring and fall each year.

Canada

60 YEARS ANS

CMHC SCHL

HOME TO CANADIANS

demand for retiree and lifestyle-oriented housing.

Expect singles sales to stabilize after edging down in 2006. Soaring prices have lead to stronger competition from both the new and resale multi-family sectors. Also, with 50% of singles listings currently priced at more than $500,000, the new home market has attracted a bigger share of move-up buyers.

The supply of active listings has eased upward in response to moderating demand. Also, expectations of big price appreciation has drawn more sellers into the market place. Supply, though up from 2005 and the decade lows recorded in 2002 and 2003, remains well below levels seen through the mid and late 1990s. The market has seen a dramatic shift in the price distribution of singles listings. Detached units priced at less than $300,000 currently account for only 6% of singles listings, down from almost 40% just two years ago. For now, move-up buyers remain the focus of resale singles demand.

The median resale singles price will jump 21% to 375,000 in 2006, recording double-digit increases for the fourth straight year. Rising prices extend across all sub-market locations. Prices will have doubled in just five years. Increased supply and slightly reduced demand point to smaller gains next year. Expect the median resale house price to near the $400,000 mark, rising another 6% in 2007.

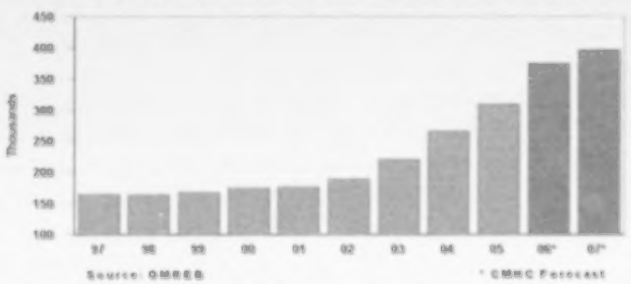
The Core area, Rutland, Glenrosa and Westbank remain the most modestly priced locations. Southeast Kelowna, Dilworth Mountain, the Mission area and sections of North Glenmore, Lakeview Heights and West Kelowna command the highest prices. Black Mountain, Glenmore, Lake Country, North Glenmore, Peachland and Shannon Lake are the focus of buyers seeking mid- priced detached units, homes in the $350,000-$380,000 price range.

The resale condo and townhouse markets will remain strong performers in 2007. Expect sales to closely approach 2006 levels. Price and lifestyle remain the key drivers. With few detached units priced at less than $300,000, more first-time buyers are turning to multi-family housing. Higher density housing has now become more widely accepted among younger Kelowna area buyers, representing a major shift in buyer attitudes. Retirees, move-down buyers and lifestylers also remain big sources of demand. Near zero vacancy rates, rising rents, low cost of financing and prospects for significant price gains have lead to more interest by investors. High levels of construction activity have pushed up the supply of condo listings. The resale townhouse market remains less well supplied, due, in part, to growing demand for modestly priced family-oriented housing.

Strong, more broadly-based demand has continued to drive up prices. The median resale townhouse and condo price will rise 10% and 7% to $246,000 and $217,000, respectively in 2006. Condo and townhouse prices will also see smaller increases next year.

Price Distribution of MLS ® Singles Listings		
Price Range	2006*	2004*
< $300,000	6.1%	40%
$300-$399	24.4%	25.9%
$400-$499	19.7%	12.9%
$500-$999	34.7%	20.2%
$1,000,000+	15.1%	3.0%
* Sept. Source: OMREB.		

Chart 2 Median Resale House Price



Resale singles price see double-digit increase in 2006. Expect smaller gains next year.

HOUSING STARTS DROP BACK FROM RECORD HIGHS

Kelowna area housing starts will drop 8% to 2,500 units in 2007, easing back in response to sharply rising new home prices and capacity constraints. Solid market fundamentals in combination with strong demand for lifestyle-oriented housing will keep housing starts at high levels despite the decline. Absorption has held up, keeping inventories of complete and unsold units near historical lows. For the third straight year, multi-family starts (combined semi-detached, townhouse and apartment units), will surpass singles starts. Housing starts will total 2,725 unit in 2006, closely approaching 2005's record high.

The singles sector will remain buoyant through 2007. Lifestyle-oriented housing and neighbourhoods which bring together the right combination of housing types, form, setting and amenities, will stay front and centre. Larger, multi-phase developments have become the norm. Lake and valley view properties will remain the strongest performers. The move-up, move-down and retiree markets will, once again, remain the biggest source of new singles demand.

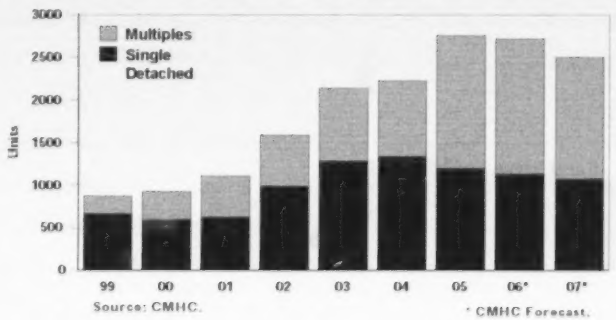
Lot supply has barely kept pace with demand, leaving developers scrambling to bring more on stream. The focus of singles development is shifting outward as municipalities extend infrastructure into new areas. Dilworth Mountain, Gallaghers Canyon and Quail Ridge - long standing sources of building lots have moved ahead with their final phases. Lake Country, North Glenmore, Black Mountain, Kirschner Mountain and the Shannon Lake area have seen new, multi-phase subdivisions come on stream in the past 18-24 month period. Construction activity is following lot supply. With land costs lower in some outlying areas, more entry level building lots - lots priced in the $125,000-$145,000 range have become available. Strong demand, skyrocketing resale house prices ***and*** greater availability of mid priced building lots have enabled some developers to compete for buyers seeking entry level detached housing - homes in the $340,000-$400,000 price range.

Rising lot prices will continue to push up the cost of new housing. Lot prices have mushroomed in response to strong demand and tight supply. Higher land development costs, leapfrogging past lands in the Agricultural Land Reserve (ALR), Development Cost Charges and more costly hillside development have all contributed to rising lot prices. The median lot price will climb to $145,000 and $155,000 in 2006 and 2007, respectively. The $125,000-$140,000 price range now represents the low end in most new subdivisions. Premium lake and valley view lots are commanding prices in the $175,000-$200,000 plus range.

Strong demand for more upscale housing, rising lot prices and other costs have pushed up new home prices. Extended construction periods have also contributed to higher new home prices. The median new home

Continued on the next page

Chart 3 Kelowna Housing Starts



price will reach $460,000 this year and $483,000 in 2007.

Condo starts will remain at high levels in 2007, exceeding the 1000 unit mark for the third consecutive year. Retirees, move-down buyers and the resort/lifestyle markets will remain key sources of demand. The resort market has evolved quickly, segmentation by product type - tenure, location, building style and amenities - the key to expansion. Many are second residences, investor-owned units or purchased in anticipation of retirement. At least 2/3 of condo projects currently under construction are targeting this segment of the market. Alberta is, at present, the largest source of buyers for resort-oriented condos. Resort and conventional condo markets continue to see more and more overlap. Though an aging population and hot Alberta and BC economies point to sustained demand for resort and other types lifestyle-oriented housing, this market faces some potential for oversupply given the large number of development proposals moving through the approval process.

The condo market has moved in new directions, attracting a broader range of buyers over the past eighteen months. With the price of both new and resale detached units up sharply, more first-time buyers are turning to the new condo and townhouse markets. Take-up among projects offering lower to mid priced units has been strong. Look for more first-time buyer oriented projects in 2007.

Kelowna is seeing more, larger projects. Many projects now include a commercial component. Mixed use developments faced considerable buyer resistance just a few years ago. Multi-family housing is becoming more widespread including Westbank, Lake Country and Lakeview Heights. More towers are on the way. Towers are now being proposed for locations ***outside*** the Core Area.

Prices have trended up sharply, each project pushing the price envelope to new highs. The up-tick in prices reflects both soaring construction costs and strong demand for more upscale product. Absorption remains strong and inventories low. Pre sales are holding up, almost 85% of condos under construction have already been sold. Though good news, balancing presale activity with rapidly escalating construction costs has emerged as ***the*** key challenge for developers of multi-family housing. Shortages of skilled labour, have led to lengthy delays. Many builders have implemented phased pricing schemes to offset construction delays and rising costs.

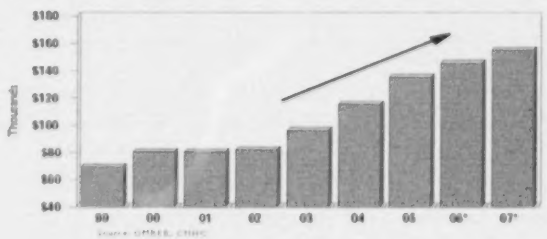
The Kelowna area condo market will become ***increasingly competitive*** in 2007. The market has begun to see more speculative buying, buyers purchasing one or more units with the intention of reselling, often before the building is complete. Strong demand and sharply rising prices are fueling expectations of quick turnover and big price gains.

Townhouses have captured a bigger slice of the new home market, regaining popularity lost through the mid 1990s. Once again, price and lifestyle remain key drivers. Sales among first-time buyer oriented projects have been especially strong. Look for more projects in Rutland, Mission and the West side this year.

Singles Starts (Jan. - Sept.)

Location	2006	2003
Black Mountain	64	35
Core Area	36	146
Glenmore	3	43
Lake Country	102	32
Lakeview Heights	43	82
North Glenmore	105	9
Shannon Lake	54	45
S. E. Kelowna	20	61
Upper Mission	224	139
West Kelowna	46	71

Chart 4 Median Lot Sale Price



ECONOMIC OVERVIEW

OUTLOOK REMAINS POSITIVE IN 2007

Growth in the Kelowna area economy and population will continue drive housing demand through 2007. An expanding economy has lead to more employment opportunities, attracting job seekers to the Kelowna area. Kelowna's unemployment rate, though edging up slightly, remains at among the lowest levels in over a decade.

The construction, manufacturing, personal services and health care sectors are the biggest sources of job creation. The creation of UBC (University of British Columbia) Okanagan will add a whole new dimension to the Kelowna area economy - profile, direct and spin-off employment, capital expenditure, industry partnerships and research dollars. An influx of buyers seeking second residences and resort-oriented housing - non-permanent residents - have emerged as a key source of housing demand and major contributor to the local economy. The forest products industry faces a more difficult year in 2007. Declining lumber prices, reduced demand, supply issues and changing regulatory environment may have some impact on local operations.

The construction sector continues to experience a shortage of skilled workers. The shortage has extended across all industry sectors, becoming a constraint to economic growth overall.

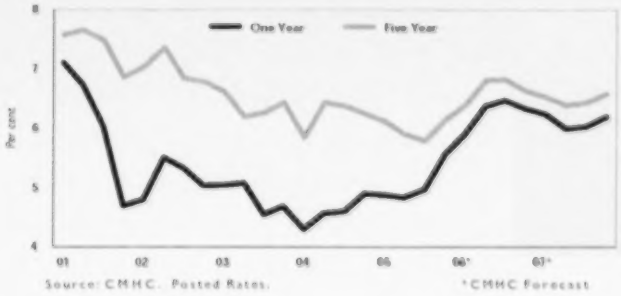
The BC economy will record solid growth in 2007, trailing only Alberta. Strong investment and consumer spending and global demand for commodities will to support growth in employment. A relatively high Canadian dollar will dampen growth in domestic production and trade. On a more positive note, the strong dollar will encourage investment in machinery and equipment - much of which is imported contributing to increased productivity. Low inflation and ongoing shortage of labour will mean real wage gains. More jobs together with higher wages will continue to fuel demand for housing.

BC's population will grow by 1.3% in both 2006 and 2007, up from 0.9% just four years ago. Net inter-provincial migration will remain positive, despite Alberta's huge draw. Historically, people moving to BC from other provinces have been a big source of Kelowna A booming Central Okanagan economy and strong Vancouver area real estate markets have also led to high levels of intra-provincial migration - people coming to Kelowna from ***within*** BC.

The Central Okanagan has been ranked as the second fastest growing Regional District in the province. The Kelowna area population will, exclusive of seasonal in-migrants, grow by 2.5% - 3.0% this year and next.

Moderate inflation, a strong Canadian dollar vis-a-vis the U.S. dollar and slowing economy will help keep mortgage rates low through year-end and in 2007. Expect rates to ease 25-75 basis points over the next two to three quarters before starting to climb higher. One, three and five year posted rates are forecast to be in the 5.50-6.50, 5.75-6.75 and 6.00-7.00 per cent ranges respectively, in 2007.

Chart 5 Mortgage Interest Rates



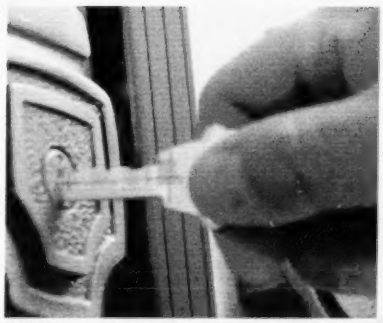
Source: CMHC. Posted Rates. *CMHC Forecast

FORECAST SUMMARY

Kelowna Area
Fall 2006

RESALE MARKET	2004	2005	2006*	2007*	% CHG.
MLS Active Listings (Sept.) **	1,600	1,216	1,610	1,700	6%
MLS Sales					
Total	3,978	4,556	4,250	4,100	(3.5%)
Single-Family	2,887	3,112	2,900	2,800	(3.4%)
Apartment	755	1,012	950	925	(2.6%)
Townhouse	336	432	400	375	(6.3%)
MLS Median Price					
Single-Family	$267,000	$310,000	$375,000	$397,500	6%
Apartment	$159,900	$203,000	$217,000	$230,000	6%
Townhouse	$183,500	$223,750	$246,000	$268,000	9%
NEW HOME MARKET					
Complete and Unoccupied (Sept.)	98	99	104	110	6%
Single-Family	61	64	58	65	12%
Multi-Family (excludes rental units.)	37	35	46	45	(2%)
Starts					
Total	2,228	2,755	2,725	2,500	(8%)
Single-Family	1,341	1,205	1,135	1,075	(5%)
Multi-Family	887	1,550	1,590	1,425	(10%)
Median New House Price	$349,900	$369,900	$460,000	$483,000	5%
Rental Market					
Vacancy Rate	1.1%	0.6%	0.5%	0.5%	
Rental Rate - % Chg. two bedroom	3.7%	4.4%	4.5%	4.0%	
Rental Housing Starts***	107	44	10	30	
ECONOMIC OVERVIEW					
Mortgage Rate (3 year term)	5.65%	5.59%	6.00-7.00%	6.00-7.00%	
Mortgage Rate (5 year term)	6.23%	5.99%	6.25-7.25%	6.25-7.25%	
Net Migration	3,750	4,000	4,000	4,000	

* Forecast. ** Single-detached, apartment and townhouse. *** Privately initiated units. Source: CMHC, Okanagan Mainline Real Estate Board.
MLS® Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.



STAY ON TOP OF THE HOUSING MARKET

Enhance your decision-making with the latest information on Canadian housing trends and opportunities.

Access accurate, comprehensive and current housing data on-line, through a national suite of publications and a number of other statistical reports and tables.

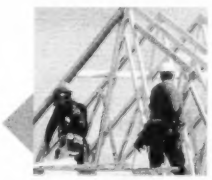
Hyperlinks to free reports:

- Canadian Housing Statistics
- Consumer Intentions to Buy or Renovate a Home
- Housing Information Monthly
- Housing Market Outlook, Canada
- Housing Market Outlook, Major Centres
- Housing Now, Canada
- Housing Now, Major Centres
- Housing Now, Regional
- Monthly Housing Statistics
- Preliminary Housing Start Data
- Rental Market Provincial Highlight Reports
- Rental Market Reports, Major Centres

Also available: regional specialty reports

- Analysis of the Resale Market, Québec Centres
- B.C. Seniors' Housing Market Survey
- Greater Toronto Area (GTA) Condominium Report
- Housing Market Tables: Selected South Central Ontario Centres
- Market at a Glance, Prairie Centres
- Ontario Retirement Homes Report
- Residential Construction Digest, Prairie Centres
- The Retirement Home Market Study, Québec Centres

Get the market intelligence you need today!
Visit: www.cmhc.ca/housingmarketinformation



CANADIAN WOOD-FRAME HOUSE CONSTRUCTION

This national best-selling guide to constructing a wood-frame house is the ideal learning tool and job-site manual. The new edition of Canadian Wood-Frame House Construction has been updated to reflect the residential requirements of the 2005 National Building Code of Canada. In addition, many changes have been made to bring the book in line with current building science research, construction methods and construction materials. **Order now at www.cmhc.ca or call 1 800 668-2642**

64359_2006_B02